App. F. IX-4

1927-28

LB File No. 45-27

(LB)

Serial Nos. 1,344

Previous References

LB 116-14-1,2 d
LB 101-21-11, 15 d
G. 715-75-1-5 d
G. 715-75-1-2

Later References

LB 45-27 SS 5—10.
LB 71-45-2

General and Revenue Secretariat.

Serial Nos.

Part B for November 27.

SUBJECT

Terms for the final acceptance of the
Bids &c towards the Construction of the
Shimoga-Arsikere Railway up to Rajkhosahalli

NL 4978 noted by the Presidt of the Dist. Bd, Shimoga.

HS
14/11/27

General and Revenue Secretariat. LB File No. (15 of 192)

Serial No.

P. U. D. 1

From the President, Dr. Board, Shimoga, No C.380-28 of 1.8.27.

With reference to para. 7 of G.O. of 22nd January 1927 offering certain terms for the final acceptance of the Board towards the construction of the Shimoga-Arsikere Railway up to Rajihosahalli, forwards for favourable consideration the resolutions of the Standing Committee of the Dr. Board on the subject, Submitted for orders.

Flag X R

Vide G.O. of 5.8.27, the estimate for Rs 18,02,333 for the construction of the Railway has been sanctioned 2) If approved the terms offered and the resolutions will be final in the form of a statement to facilitate orders

3) Yes - but why 2 ½ for this type

Submitted with a note in the form of a statement. (Ref Para 3)

Rec'd 14.9.27 4 p.m.

16.9.27.

Etc.

NOTE—Contn. sheet

General and Revenue Secretariat. | File No. of 192 .

Serial No.

Kind attention is invited to the G.O. dated 22nd January 1927 in which Govt. imposed four conditions to the Dt Bd before resuming work on the Shimoga Arasalu Railway. Two of the conditions the Bd accept - namely (1) that the accumulated Rly Cess collections shd be made over to Govt with no proprietary right in the line however to the Dt Board and (2) that the cess will continue to be levied in the Dt for twenty five years, the collections being used to pay interest. The other two conditions they do not accept in the form proposed. The first of these is that the loan already raised shd bear only interest and that no share of the profits can be given to the shareholders of bonds. The Bd say that the grant of a share in the profits was one of the terms of the loan as advertised and that the terms cannot be changed now. As the amount of the loan already taken up is small - only about Rs 222 thousand - the share in the profits may perhaps be allowed as / included

Note—Contn. sheet

P.0824—GPB—60,000—24-5-27

General and Revenue Secretariat. | File No. of 192 .

Serial No.

FL 772
22.9.27

5314
29.9.

ei the terms advertising the loan. The other condition that may demand is. to the keeping of interest on the Govt's share of the capital at 5½% They object also to the rate proposed as being 1/2 % more than the interest on the ~~general~~ public loan. Whether the money made available by Govt can be given at a lower rate is for consideration. It may not be possible ordinarily as 5½% is rather a low rate of interest, but in this particular case as the Board give up all their accumulated collections under Ry Cess. and will give the Ry Cess collections last year for use for paying interest at lower rate than 5½% may perhaps be changed.

DW
22/9.

First Member
thro' Fl Secy

PTO

NOTE—Contn. sheet

WD 0324—GPB—60,000—24-5-27

Serial No.

The District Board and the Deputy Commissioner appear to have ignored the previous history of the case in submitting proposals for reconsideration of the terms under which the construction work of the Shimoga-Arasalu line was resumed.

As regards the debenture holders being promised a share of profits in the line when the net earnings exceed 5 per cent, stress has been laid on the terms of the Government Order of 8th February 1921 which directed that the Shimoga District Board Railway Loan will be utilized for the main line with a guarantee of 5 per cent interest and a proportionate share of profits when the net earnings exceed 5 per cent.

In September 1921, the subcribers prayed that all the amounts paid by them may be returned or in the alternative, may be invested in the new Government loan then floated (so as to secure a higher rate of interest to them) since there was no likelihood of any amount being utilized for the Railway construction in the near future. The District Board resolved that as no time limit for the construction of the work could be promised the loan amount might be returned to the subscribers.

After prolonged correspondence, the District Board was asked to contribute half the total capital expenditure in accordance with the

Serial No.

the revised terms specified in the Government Order of 5th January 1924 (Flag G.)

These terms were accepted by the District Board and on 21st March 1924 it resolved that the subscribers be requested to pay up the remaining portion of their share amount and should there be no response, the desirability of declaring the paid up amounts as forfeited may be considered etc.

The Board wanted Government to guarantee 6¼ per cent interest on the loan free of income tax and subsequently pressed the Government either to resume the work or order the discontinuance of the levy of the Railway Cess. The District Board was, however, unable to raise its share.

The question was then reexamined and fresh proposals for the resumption of the line were made by Government in their letter of 9th July 1926. In reply to ~~which~~ His the Board agreeing ~~to~~ (1) make over accumulated amount of the Railway Cess unconditionally, (2) place at the disposal of Government the Cess that may be collected hereafter together with the loan raised by the Board and (3) surrender its proprietory right over the line.

It will thus be seen that the terms of the Government order of 8th February 1921 were not absolute as they were revised by the G.O. of 5th January 1924. And as the District Board was not able to obtain necessary funds

Note—Contn. Sheet

from the debenture holders and to contribute half the share of the capital, a new arrangement for the resumption of the main line, as entirely a Government concern, has been adopted with the concurrence of the District Board.

So long as the loan is outstanding the subscribers are entitled to the guaranteed interest of 5% free of Income Tax and nothing more, especially in view of the opinion of the District Board recorded in its resolution of 21st March 1924.

As regards the proposal for the calculation of interest on capital at 5% instead of 5½ % I may state that the question is only of academic importance. Whether interest is calculated at 5½ % or 5% the working of the Railway will involve a loss on Government as the District Board has declined to raise the Railway cess from 3 to 6 pies The Board has agreed to place the proceeds of the annual Railway cess at the disposal of Government for meeting the deficit in the Revenue account for a period of 25 years.

In these circumstances I fail to understand how the limiting of interest charges to 5% will in any way help the financial condition of the Board.

As I have said even at 5% the working of the concern will result in an annual loss of about Rs 21933 which will have to be borne by the general tax-payer

5.10.27

5/10.

2410 6/10

C 30

App. B. [redacted]

General and Revenue Secretariat.

File No. of 192 .

Serial No.

5537/7/10

The Fin Secy may kindly explain to the President, who is keen, that 5 p.c or 5½ p.c makes no difference whatever to the Board as their only obligation is to pay the Govt Cess for 25 years & that 5½ p.c. is necessary for accountal, as some of our Capital is borrowed money at 6, 6½ & 7 p.c. If Secy Finance if Pres explains this to the Board at its next meeting.

I think Share in profits if any, (beyond 5 p.c) D Share holders might be promised as this involves no real obligation for any period that we need envisage.

If Fin. Secy & Pres agree above Govt Advocate might be asked to draw up a formal bond. Stamp duty might be ensured by Trust.

Lee
7/10

H/S. L. S.B.
Please arrange for a meeting with Mr S.J. Krishnaiyar tomorrow.
L
7.10.27

2.2. 8/10/27 7.45 A.M.

Mr K. will meet Secy Finance at 10 tomorrow (9th.).
Please prepare tomorrow at 9.30 a.m.

NOTE—Contn. sheet

Mr K. met Secy & Finance yesterday. PC
Please bring up for a day or two
9/10.

WD 0824—GPB—60,000—24-5-27

6021 - 1339 C/R 39

App. F. III—81

General and Revenue Secretariat.

File No. of 192 .

Serial No.

WAR'S OFFICE.
received on
13 OCT. 1927
No. 02569

5615

9/10

2984
12/10

The matter was discussed in person between the Hon'ble Secy and Hon Revenue Dpt in terms of the decision aimed at is subt for approval

MO
9/10

First Member
thro' Hon'ble Secy. } Draft (revised) is proposed for consideration.
4
10/10.

Agree. Submit to Govt.
Hon'ble Revenue.

OFFICE OF THE SECRETARY TO COUNCIL.
12 OCT. 1927
No. 1945

Lee
11/10

MO
12/10

Second Member
Revenue } Mode 12.10.27
PRB
12/10

MO
14-10-27
PRB

3094
17/10

For perusal The draft will now issue
MO
17/10

First Member 10/10

Done
MO
18/10

NOTE—Contn. sheet.

WD 0824—GPB—60,000—24-8-27

General and Revenue Secretariat.

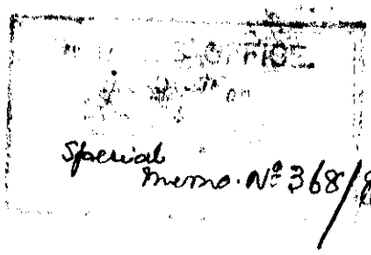
File No. of 192 .

Serial No.

Letter no 2[illegible]972. L.B. 45-27-4 dated 20.10.27 to the President Dist. Bd. Shimoga re the Shimoga-Arasalu Rly. Contraction.

NOTE.—Contn. sheet.

WD 0321 -GTB-60,000-24 5-27



Special Memo. No. 368/Revenue

Office of the Dewan of Mysore,

NOTE.

Dated 22nd October 1927.

I enclose an extract from the "Capital" of the 13th October 1927 of an article by Mr. G. R. Josyer entitled "Railway Expansion in Mysore and its Financial aspect" for favour of perusal. Mr. Josyer strongly criticises the policy of Government and also accuses Government of breach of faith. He is perhaps not aware that the construction of the Shimoga-Arasalu line was sanctioned under what is known as the "Branch Line Terms". I shall be grateful if the question is examined and action taken to contradict Mr. Josyer's statements.

Dewan.

~~Thiem~~ Member of Council with compliments.

Psk.

G.R.S. III— The "Capital" III S.H.D

[To be used — OCTOBER 13, 1927 — manent record.]

RAILWAY EXPANSION IN MYSORE AND ITS FINANCIAL ASPECT.

G. R. JOSHER, M.A., F.R.E.S.

RAILWAY expansion has been somewhat slow in the history of Mysore, the total length of open lines being about 670 miles of all gauges for an area of 27,000 square miles compared with 32,000 miles of railway lines for an area of about 110,000 square miles in British India, or proportionately 190 miles less than the latter. One reason for this is perhaps that the Mysore plateau presents a comparatively uneven surface, rendering the task of surveying somewhat difficult and entailing a greater capital outlay per mile of railway line than in British India. Besides, though the State's revenue is fairly good, averaging about Rs. 3¼ crores per annum, the normal demands and the abnormal commitments on it leave very little for expenditure on railway expansion.

Nevertheless two of the late Dewans, Sir Visweswarayya and Sir A. R. Banerji, could not but recognise the need for that expansion, and by way of solution of the problem of funds, they devised the means of authorising the District Boards to levy a Railway Cess on the agricultural population based on the Land Revenue, at the rate of 3 or 6 pies in the rupee. The Boards were also empowered to raise Debenture Loans from the public for the purpose of railway construction, the cess funds of each District being set apart to meet the requirements of that District. Such funds have been accumulating even in Districts where no railway projects are immediately in view. Where a railway scheme has been approved by the Durbar, and the District Board has provided the capital by raising a debenture, the income from the cess is utilised for paying the interest due on the debenture every year.

Thus in the Mysore District a 22-mile line costing about Rs. 8,00,000 was constructed last year by means of a loan raised by the Mysore District Board. The line is a continuation of the State-owned Mysore-Nanjangud line up to Chamrajanagar so as ultimately to meet a branch of the South Indian Railway and provide a straight route from Bombay to Colombo. The line between Nanjangud and Chamrajanagar is the property of the Mysore District Board, and its annual cess revenue goes towards the interest due on the Debenture Loan which provided the capital for the line.

However, in opening the above line in August last His Highness the Maharaja made the announcement of a new policy with regard to railway expansion, in conformity with the recommendation of the Acworth Committee of the India Government. His Highness said that hereafter Government themselves would look to the provision of capital for approved lines, and that the cess revenues of the District Boards should secure to Government a return of 4 per cent. on the capital invested, during a period of 25 years. So far so good. But subsequently Government passed an order with regard to a new line in the Shimoga District, which invites inspection.

In August 1914 the District Board of Shimoga was authorised to raise a loan of Rs. 10 lakhs for the construction of a line from Shimoga to Sagar with a branch line from Riponpet to Thirthahalli. The loan raised for the purpose was later on ordered to be utilised for the Shimoga-Arsalu line, but after commencement that work also had to be suspended on financial grounds. Ten years later, in 1924, the Board was asked whether it would agree to contribute half the capital required for the project out of loans and accumulated cess, Government guaranteeing 5 per cent. interest on the loan, under certain conditions. The Board asked for 6¼ per cent., and subsequently pressed for resumption of the construction or permission to discontinue the levy of the cess.

Government then re-examined the whole scheme and decided that it would be advantageous to make it into a 19-mile line, from Shimoga up to Ragi Hosahalli, at a total cost of Rs. 18 lakhs. Excluding the amount already spent on the line the amount now required would be Rs. 15 lakhs. In view of the importance of the line in opening up the interior parts of the Malnad, Government informed the District Board that they would resume construction of the line if the Board would raise the rate of the cess from 3 pies to 6 pies in the rupee, and make it over to Government towards interest on the capital cost of the line. The amount of loan and accumulated railway cess now held by the Board should be transferred to Government for meeting a portion of the capital cost, the remainder being borne by Government. The District Board is to claim no share in the ownership of the railway line.

The District Board in their anxiety for the railway line have had to accept this rather hard proposal, and have agreed to make over to Government the loan amount as well as the cess accumulations now with them, and also the annual cess collections for a period of 25 years. They however plead inability to enhance the railway cess from 3 pies to 6 pies in the rupee on the ground that the Malnad people are heavily indebted and unable to pay any excess taxation.

In their summing up Government say that the Malnad requires opening up by railway lines, that the outlay of Rs. 3½ lakhs incurred 10 years ago is lying idle, that the total estimate comes to Rs. 18 lakhs including the sum already spent, and that the balance now required is Rs. 15 lakhs. Towards this the District Board is making over to Government the sum of Rs. 7 lakhs unconditionally. Government will have to provide the balance of Rs. 8 lakhs.

The "Capital"
13-10-27

G.R.S. III—3]

Routine Notes.

[To be used only for notes, requisitions, etc., not intended for permanent record.]

Accordingly they have ordered that the loan raised by the District Board will be considered as that of Government, with no claim by Debenture holders to any share in the profits of the line. It is to be stated that under the conditions of issue of the loan, a share of profits was promised to Debenture-holders and that condition is abrogated now. The District Board is to transfer to Government the cess accumulations amounting to about Rs. 3½ lakhs, without claiming any properietory right in the line. Future annual cess collections also should be made over to Government for meeting deficits in the revenue account for a period of 25 years. The Railway Department is to commence construction of the line immediately.

One thing that strikes the reader on a scrutiny of the foregoing is the spirit of hard bargaining with which the State Durbar has been carrying on its negotiations with the District Board in this matter. In the first place it is the duty of a progressive administration to extend railway communication in a province without any part of the burden being thrown on the Local bodies. This was the view taken even by the Financial Commissioner of Indian Railways at a recent sitting of the Imperial Legislative Assembly. If, however, an administration is unable to take over that responsibility, and asks the Local Board to levy a cess on people of the area or raise a loan and finance the scheme, even then the administration would in the ordinary course be expected to make good any losses that may occur, and guarantee the interest due on the Debentures.

In the present instance the Government, which is said to be committed to the policy of opening up the Malnad or Hill-tracts, when appealed for a railway line asked the District Board to raise a loan on a promise of interest and part profits, and also to levy a cess for paying the interest with. After the loan had been levied for the construction of a specific line, the Government changed its mind and diverted its use to another line. After some progress had been made in the latter, and over a quarter of the intended outlay had been spent it discontinued work on the plea of financial stringency, but meanwhile left the collection of the Railway Cess from the public to be continued. When at last it decides to resume work on the line, it insists on the District Board making a free gift to it of the accumulated railway cess, and also making good any loss that Government may sustain, without thereby gaining any kind of right over the line. And lastly, Government denies at this late stage the right of the Debenture-holders to a share in the profits of the line, which was assured to them under the original terms of the loan.

The several points enumerated above regarding the present position of the Government cannot fail to cause surprise in the minds of enquiring critics. The last one relating to the Debenture-holders, however, should certainly kindle astonishment. While their negotiations with the District Board show that the Durbar seem not to be alive to their own responsibilities with regard to progressive productive works, and are willing to subject the public to a duplication of taxes, their refusal to the Debenture-holders of one of the basic terms on the strength of which they subscribed to the loan, indicates a strange ignorance of what is known as Economic Ethics. It is for the Debenture-holders to ascertain how far the Government's position is legal. Others who are interested in economic development and what is called administrative probity, cannot help viewing it as a case of bad bargaining, because the State, like the rest of India, has still to make much headway in constructive economic progress, and this kind of insensibility to moral responsibilities and legal commitments may reflect seriously on the future of that progress. It is well-known that one of the major objections of the British Government to the present Russian Administration is the latter's abrogation of international commitments in economic matters. Somewhat similar are the measures now consciously or unconsciously proposed by the Mysore Durbar, known often-times as the "Model State." It is only to be hoped that this is but a passing mood.

1339

G. R. S. III—3]

[6—III

ROUTINE NOTES.

[To be used only for notes, requisitions, etc., not intended for permanent record]

Mr Rance (Pol) hi th (Emplb) (Mr Dodd)

Please pour up a draft Communique
in consultn with Sir Lee et (Guarantee
Sch, in H. M's Speech seems indicated)
b) Please see particular G. (Mr
Menzies re promising share in
profits (a compromise his talking point).
and Sir Lees draft to D.C.
The Question is not finally
settled & I still think
that there is no harm, & much
advantage in Criticism being directed
and shaped after the ~~Board~~
Darling Report is published
& Lomax, this is financially unbookable
& the reason has been clearly
stated so that the public may
understand. This is the main Criticism
& Mr Can can [illegible] be answered soon to
his Guarantee. Note the ces to be Emphasised
22/10

Mr Rd

) P. Please get these
refer
RG
22/10

) Mr. Rowe a draft - Early
RG
25/10

) A draft is suggested for consideration.
22/10

Pub: (Africa)

U.S.R.
remarks
RG
27/10

N. B.—Should routine notes be written on small slips the notes must be cipoed, or slips pasted on this form

G. R. S. III—3]

ROUTINE NOTES.

[For use only for notes, requisitions, etc., not intended for permanent record.]

I send the file to the Asst Secretary
in person today.

Mr Research Officer has been asked to
explain the position to the Asst Sec
and it is expected that they will
agree to what has been suggested
as the best course, the Chief Clerk
thinking that
but you need not be replied to
immediately and that we
may await receipt of the opinion of
Bd and issue orders once for
all - publishing them in the Press
also.

5/11

Publicity Officer.

Seen & returned with thanks

7/11

7/11

N.B. Should routine notes be written on small slips the notes must be pasted on this form.

In his article published in the "Capital" dated the 13th October 1927, under the heading "Railway expansion in Mysore and its financial aspect," Mr. G.R.Josyer has strongly criticized the policy of Government in regard to the Shimoga - Arsalu Railway in the Shimoga District, and has characterised it as one of hard bargaining with the District Board. The main grounds on which his criticisms are based are the following:-

1. Under the terms of the issue of the loan by the District Board for the construction of a line from Shimoga to Sagar in 1914, a share of profits was promised to the debenture-holders, which, under recent orders, is abrogated.

2. The District Board was asked to make over to the Government the accumulated Railway Cess collections and also to make good any loss that Government might sustain without thereby gaining any kind of right to the District Board over the line.

3. Even after the construction of the line was suspended by Government on account of financial stringency, the collection of railway cess from the public was continued.

Before proceeding to answer the criticisms of the writer, it may be useful to give a brief history of the Shimoga-Arsalu railway project. The construction of the

railway line from Shimoga to Sagar was sanctioned by Government on the 12th August 1914 on the understanding that the District Board of Shimoga would furnish Rs.10 lakhs towards the capital cost of the project, the remaining portion of the cost, viz., Rs.18 lakhs, being provided by Govt. The District Board was also authorized to issue the necessary prospectus for raising its portion of the capital cost, Govt. guaranteeing the interest thereon at 4 per cent. One of the conditions mentioned in the prospectus was: "After the line has begun to yield a return of more than 4 per cent. on the capital outlay, half of the surplus profits accruing to the Board's share may be distributed as bonus among the debenture-holders."

Later on, in their order dated 8th February 1921, Govt. raised the guaranteed rate of interest to 5 per cent and directed that a proportionate share of profits would be given to the debenture-holders when net earnings of the line exceeded 5 per cent. Such a step was due to the fact that the loans were slow in coming and it was anticipated that with a little more advantage offered to the people, they would readily subscribe in more numbers.

Even with such an encouragement, not more than one-third of the loan was forthcoming and in the meantime, the construction of the line itself was

suspended owing to financial stringency. At the instance of the District Board, the question was again taken up by Govt., and on 5-1-1924, the District Board was again asked if they would contribute half the total capital expenditure from the loan already raised, accumulated cess collections and additional loan to be raised. Govt. also promised the same terms as to interest and profits to the debenture-holders, as were offered in the order of 1921 above referred to. In accepting the above terms, the District Board wanted Govt. to guarantee 6¼ per cent instead of 5 per cent on the loan, free of income-tax. They also pressed the Govt. either to resume the work or order the discontinuance of the levy of the railway cess. At this stage, the cost of the line up to Kumsi and its extension to Ragihosahalli was recalculated and it was estimated that it would amount to Rs. 18,02,333 against Rs.28 lakhs which would be required for the entire line. Excluding the amount already spent up to the date of suspension of work, the net amount required was about Rs.15 lakhs. In view of the importance of the line which will have the effect of opening up the interior of the malnad and of the policy intended to be pursued by Govt. as regards the construction of railway lines in the Districts, the District Board was informed, in July 1926, that the resumption of the construction of the

Shimoga-Arsalu line would be considered if the Board agreed to raise the railway cess to 6 pies and make it over to Govt. to meet interest charges on the total capital cost incurred. They were also informed that the loan raised by them including the accumulated railway cess which will be permitted to be used for the capital cost of the line without the Board claiming any proprietory right in respect of it should be transferred to Govt. for meeting a portion of the capital cost, the remainder being borne by Govt. Except the proposal about enhancing the railway cess, the District Board agreed to the other conditions and prayed that in the interests of the improvement of the general economic condition of the Malnad, the construction of the line be taken up without loss of time. In view of the fact that including a sum of about Rs. 3½ lakhs being the proceeds of the loan, the District Board could make available about Rs.7 lakhs, and that a loss was justifiable in the circumstances of this case, Govt. agreed to resume the construction of the line, offering to provide the remaining capital of Rs.8 lakhs from the general revenues.

From the above resume, it will be clear that the District Board, with all the advantages offered by Govt. were unable to raise the required amount of capital from the debenture-holders, nor could they contribute half the share of the capital, with

the result that a new arrangement for resumption of the construction of the main line, entirely as a Govt. concern, had to be adopted, with the full concurrence of the District Board, even though it meant a considerable loss to Govt.

With reference to the point emphasized by Mr.Josyer that a denial of the profits to the debenture-holders was a breach of faith on the part of Govt., suffice it to say that so long as the loan is outstanding, subscribers are entitled only to the guaranteed interest on the amount actually subscribed by them and nothing more, more especially as they stood very near forfeiting the paid up amounts for failure to pay the remaining share amounts when called upon to do so. It may also be mentioned that there is nothing in the orders of Govt. to suggest that if the subscribers fully pay up the loans subscribed for by them, the question of giving them a share of the profits promised to them in the order of 1924, would not be considered.

The other two criticisms ignore the Govt. Order dated 9th Sept. 1926 which lays down the policy of Govt. in regard to the construction of railway lines in the State. It has been clearly laid down there, as a general rule, following the practice in British India, "that no proprietory rights will be allowed either for local bodies or for companies or any new railway lines to be constructed in the State." It is also stated in the same

order that "if a District Board proposes a line which is not expected to be remunerative on its earnings but the construction of which is urged for local reasons, it is reasonable to expect Govt. who undertakes its construction, to be reimbursed the loss involved in the working of the line."

The utilization of the accumulated railway cess towards a part of the capital required for the construction of the line was also ordered in pursuance of the policy indicated in the order referred to above.

It will thus be seen that there was no "hard bargaining" at all as alleged in the article.

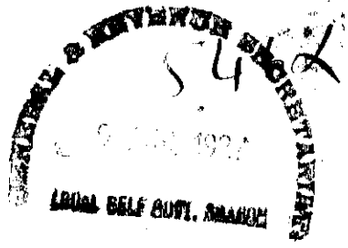
In regard to the continuance of the levy of the railway cess, although the work was suspended for some time, it is enough to say that such a levy is authorized by law and is meant to be utilized wholly for the construction of railways and tramways in the district, although there may be no immediate prospect of any lines being constructed.

27/10.

OFFICE OF THE PRESIDENT, DISTRICT BOARD,
SHIMOGA.

No.C.No.280/L.B.26-27
Encls.One

Dated the 1st August 1927.



From

B. T. KESAVAIENGAR, Esq. B. A.,

President, District Board,

Shimoga.

To

R.Ranga Rao,Esquire,B.A.B.L.,

General Secretary to Government,

B A N G A L O R E.

Sir,

Adverting to Government order No.4763-75/L.B.101-21-18 dated 22nd January 1927 offering certain terms for the final acceptance of the Board so that the construction work of the Shimoga-Arasalu Railway line up to Ragihosahalli be resumed, I have the honour to state that the subject was brought up for the first time before the newly constituted District Board at its meeting held on 23rd February 1927 and the subject after some discussions was referred to the Standing Committee of the Board for its views in the matter.

The Standing Committee met on 18-4-27 and the subject was deferred for further study by the members as they wanted time to look into all the previous references on the subject. Accordingly a meeting of the Standing Committee was arranged and the Committee met on the 13th July 1927 and out of seven members five were present and the subject was fully discussed in all its aspects. The Standing Committee passed the following resolution which is submitted herewith for favour of perusal and obtaining the orders of Government in the matter.

In doing so,I have the honour to state as follows:-

First as regards clause (1) relating to the debenture holders having no share in the profits,the Committee have rightly observed

observed that the claims of the debenture/ holders cannot be overlooked in this respect. It will have to be admitted. If this is not done, it would amount to a breach of the conditions under which the original loan was raised and subsequently affirmed, when the rate of interest was increased to 5% by the Government Vide G.O.No.R.S.2278-83/Ry.F.164-20-21 dated 8th February 1921. The omission of that clause is likely to place both the Government and the Board in an embarrassing position and may involve the necessity to refund the amount on the fully paid up shares, should the share-holders not agree to the new terms proposed by Government. The retention, however, of the clause relating to the profits, is not likely to affect Government interests seriously, as it will be considerable period before the Railway line can pay more than 5% on the Capital outlay incurred and even should that contingency arise, the share in the profits can go only to the share-holders who have paid up the full share amount which, it will be seen, is a very small amount compared to the total cost.

Regarding the 2nd clause, the Standing Committee have agreed to make over the Railway cess collections including current year's collections with no claim whatever to any proprietary right in the line and the whole concern being considered as a State concern.

As regards the 3rd clause also, the recommendation of the Standing Committee regarding the appropriation of annual collections of railway cess for meeting interest charges appears to be reasonable and acceptable. It is seen that in August 1914, the District Board of Shimoga was authorised to raise a loan of 10 lakhs to be used later on for the Shimoga-Arasalu Railway Line to meet half the cost of the Capital expenditure on the line. The cost of the line for a distance of nearly 20 miles as recalculated is ascertained to be a little over 18 lakhs. In view of the Government orders on the subject, the Board has to con-

contribute only a moiety of the total cost-the rest being a free grant from the Government. The Board,it will be seen are making over to Government Seven and odd lakhs of rupees towards the Capital cost of the line. In view of that fact, the Standing Committee have urged that the Board should not be made liable for payment of interest charges on the quota of the Capital cost which the Government would have had to bear under the original conditions. In view of the present unsatisfactory financial condition of the Board and in view also of the importance of opening up of the interior parts of the Malnad by Railway and other means of communication, the interest charges may be limited to 3% which is the rate of interest actually paid on the amount of the loan raised by the Board and taken over by Government and the same rate may be charged on the Capital contributed by Government also.

Regarding the 4th clause,the Standing Comittee agree to place at the disposal of the Government the annual collections of the Railway cess for the next 25 years.

In view of the facts stated above,I beg to recommend that the resolutions of the Standing Committee of the District Board may kindly be favourably considered and orders passed accordingly.

I have the honour to be,

Sir,

Your most obedient servant,

President,

District Board, Shimoga.

Extract from the proceedings of the Meeting of the STANDING COMMITTEE of the District Board, Shimoga held on the 13th July 1927 in the Court hall of the Deputy Commissioner, Shimoga District, Shimoga.

SUBJECT :-

1. G.O.No.4763-75/L.B.101-21-18 dated Bangalore 22nd January 1927 offer certain terms for the final acceptane of the Board so that the construction work of the Shimoga -Arasalu Railway line up to Ragihosahalli may be resumed.

RESOLUTION.

Resolved that the terms offered by Government in their order N 4763-75/L.B.101-21-18 dated 22-1-27 in the matter of taking over the Shimoga-Arasalu line as a State Line together with the assets and liabilities of the Railway loan raised by the Board be accepted to the extent mentioned hereunder:—

(1) The Standing Committee of the Board accept the decision of Government that the loan raised by the Board shall be treated as a Government loan, but in doing so, they desire to invite the attention of the Government to their order No.R.S.2278-83/RY.F.164.G.20-21 dated 8th February 1921 wherein the Government have been pleased to direct that the Shimoga District Board Railway loan be utilised for the main line with a guarantee of 5% interest and a proportionate share of profits when net earnings of the line exceed 5%. In view of this decision which has been acquiesced in by the share holders, (1) the claims of the debenture holders for a share in the profits of the main line under conditions mentioned above cannot be overlooked. In this view of the case, the claims relating to the share in the profit will have to be retained and complied with. In reccommending this course, the Standing Committee of the Board would bring to the notice of the Government that this is not likely to ~~embarass~~ embarass the Government to any appreciable extent as the fully paid up shares amount only Rs 233600/- and the sh in the profits will have to be paid only when net earnings exceed 5% a remote contingency.

(2). The condition as regards making over the railway cess including current year's collections with no claim whatever to any proprietary right in the line is accepted as the whole concern is now treated as a State concern.

(3). As regards the appropriation of the annual collections of Railway cess for meeting the interest charges during the construction stage Etc, the Standing Committee desire to point out respectfully to Government that the condition to charge interest at 5½% on the Capital contributed by Government will place the Board in a worse position than when it undertook to raise the loan as one of the conditions agreed upon between the Board and the Government was that one half of the Capital cost of the line had to be contributed by the Government. In view of the fact that the Board are making over a sum of Rs 7 and odd lakhs of rupees towards the Capital cost of the line and the Government are contributing only about 11 lakhs, the Board should not be made liable for payment of interest charges on the quota of the Capital cost which the Government would have had to bear under the original condition, and that too at a rate of 5½ % as against 5%. This aspect of the case deserves special consideration in view of the fact that the development of communications in the malanad is an important item of work in which the Government are as much interested as the Board.

(4). As the Government undertake the liability to repay the loan raised by the Board and also meet the interest charges, the Committee agree to place at the disposal of the Government, the annual collection of the Railway cess for the next 25 years.

"COPY"

for President

District Board, Shimoga.

Proceedings of the Government of His Highness the Maharaja of Mysore.

Railway Department.

GENERAL & REVENUE SECRETARIAT.
6024
11. AUG. 1927
LOCAL SELF GOVT. BRANCH.

Read.--

Government Order No. L.C. 1335-43/Rly.F.210.1926-27 dated 22nd April 1927 containing revised estimate amounting to Rs. 2,[illegible] for the construction of the Shimoga-Rajiheosahalli Railway of the Shimoga-Arsikere Railway, a distance of 18.06 miles, Sanctioning, and directing the Agent to submit the Detailed Estimate preliminary to the above total amount.

2. Letter No. [illegible] dated 1st July 1927, from the Agent, Mysore Railways, forwarding, for sanction of Government, the detailed estimate for the above Railway worked up to Rs. 2,[illegible],38[illegible] together with a report from the Engineer-in-Chief.

Order No. F.C. 234-37
Rly-216(4)27-28

Mysore Cutcherry 5 August 1927.

Sanctioned.

J. Chadramohan
Secretary for Railways,
Government of Mysore.

To

The Engineer-in-Chief.
" Agent, Mysore Railways.
" Deputy Commissioner, Shimoga District.
" President, District board, Shimoga.
Copy to the General Secretary.

VRB. This will be kept in the file for reference

RESUMPTION OF THE CONSTRUCTION WORK OF THE SHIMOGA-ARASALU LINE.

(1) Terms offered by Govt.	(2) Resolution of the Standing Committee.	(3) Recommendation of the President of the Dt.Board.	(4) Office Note.	(5) Remarks.
1. The loan raised by the Board should be treated as Government Loan, with no claim to debenture holders to any share in the profits of the line	Accepted. But shareholders should be allowed to share in the profits of the Main Line when the ~~profits accruing~~ same exceed five per cent.	This should be done as otherwise, the Government, ~~the Government~~ and the Board will have to refund the amount of the fully paid-up shares should the shareholders not agree to the new terms proposed by the Government.	The arguments adduced by the Board for giving the debenture holders, a share in the profits when they exceed 5% (five percent) appear convincing and may perhaps be allowed after consulting the Financial Secretariat and the Railway Secretary, if necessary.	
2. Railway cess including the current year's collections should be handed over to Government with no proprietory right over the line.	A C C E P T E D.	A C C E P T E D.		

(1)	(2)	(3)	(4)	(5)
3. **Appropriation of the annual collection of the Railway Cess for meeting the interest charges -- during the construction stages.**	3. The condition to charge at 5½ per cent on the capital contributed ~~to~~ by Government will place the Board in a position, worse than when it undertook to raise a loan, as one of the conditions agreed upon between the Board and the Government was, that one half of the capital cost of the line had to be contributed by Government. The Board now make over 7 and odd lakhs of rupees towards the cost of the line and Government contribute only 11 lakhs. The Board should not be made liable for payment of interest charges on ~~their~~ the quota of ~~their~~ capital cost which the Government would have had to bear under the original condition. The rate of interest has been raised from 5 to 5½ per cent.	3. The proposal of the Standing Committee re: appropriation of the annual Railway Cess - Collections is reasonable, and may be accepted. In view of the very slender finances of the District Board, and of the imperative necessity of opening up ~~of~~ the interior parts of Malnad by Railway and other communications in the interest of both the District Board and Government, the interest charges may be limited to 5 per cent.		

4. Annual Railway Cess - Collection to be placed at the disposal of the Government for the next 25 years.

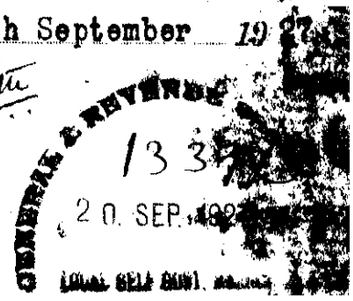
A G R E E D.

OFFICE OF THE PRESIDENT, DISTRICT BOARD,
SHIMOGA.

No.C.380/L&B.26-27
Encls.One

Dated the 16th September 19 27.

17/IX



From

B. T. KESAVAIENGAR, Esq. B. A.,

President, District Board,

Shimoga.

To

R.Ranga Rao,Esquire,B.A.,B.L.,

General Secretary To Government,

Sir, BANGALORE

In continuation of my letter No.C.380/L.B.26-27 dated 8-8-1927, I have the honour to state that the resolutions of the " Standing Committee of the District Board " passed at their meeting held on the 13th July 1927,on the terms of those by the Government in their order No.L.4763-75/L.B.101-21-[illegible] dated 22-1-1927 with regard to the resumption of the construction of the Shimoga-Arasalu Railway Line was placed before the District Board at their meeting held on the 27th and 28th August 1927 for their opinion. The subject was again fully discussed at the meeting and the Board unanimously agreed with the reccommendations made by the Standing Committee and resolved that the reccommendation of the Standing Committee be approved and communicated to Government. A copy of the resolution passed at the meeting on the subject is herein submitted for kind perusal.

In view of the above fact,I reccommend to Government that the resolutions of the Standing Committee of the District

Board

Board forwarded with this office letter No.C.380/L.B.26-27 dated 3rd August 1927 may kindly be favourably considered and orders passed early.

I have the honour to be,

Sir,

Your most obedient servant,

Shibbanna

For President

District Board, Shimoga.

Proceedings of the 1st Meeting of the District Board held on the 27th and 28th August 1927.

90. READ subject No.1 of the Standing Committee of the District Board held on the 13th July 1927.

SUBJECT:- G.O.No.4763-75/L.B.101-21-18 dated Bangalore 22nd January 1927 offering certain terms for the final acceptance of the Board so that the construction work of the Shimoga-Arasalu Railway Line up to Ragihosahalli may be resumed.

RESOLUTION :-

Resolved that the terms offered by Government in their their order No.4763.75/L.B.101-21-18 dated 22-1-27 in the matter of taking over the Shimoga-Arasalu line as a State Line together with the assets and liabilities of the Railway loan raised by the Board be accepted to the extent mentioned hereunder.

(1). The Stamdimg Committee of the Board accept the decision of the Government that the loan raised by the Board shall be treated as a Government loan,but in doing so, they desire to invite the attention of the Government to their order No.R.S.~~WWW~~ 2278-83/Ry.F.164.G.20-21 dated 8th February 1921 wherein the Government have been pleased to direct that the Shimoga District Board Railway Loan be utilised for the main line with a guarantee of 5% interest and a proportionate share of profits when net earnings of the line exceed 5%. In view of this decision which has been acquiesced in by the share-holders,the claims of the debenture-holders for sharing the profits of the main line under

under conditions mentioned above cannot be overlooked.

In this view of the case,the claims relating to the share in the profits will have to be retained and complied with.

In reccommending this course,the Board would bring to the notice of the Government that this is not likely to embarass the Government to any appreciable extent as the fully paid up shares amount to only Rs 2,23,600/- and the share in the profits will have to be paid only when net earnings exceed 5% - a remote contingency.

(2). The conditions as regards making over the Railway cess including current year's collections with no claim to any proprietary right in the line is accepted as the whole concern is now treated as a State concern.

(3). As regards the appropriation of the annual collections of the Railway cess for meeting the interest charges during the construction stage Etc., the Standing Committe desire to point out respectfully to Government that the condition to charge interest at 5½ % on the Capital contributed by Government will place the Board in a worse position than when it undertook to raise the loan as one of the conditions agreed upon between the Board and the Government was that one half of the original cost of the line had to be contributed by the Government. In view of the fact that the Board are making over a sum of 7 and odd lakhs of rupees towards the Capital cost of the line and the Government are contributing only about 11 lakhs, the Board should not be made liable for payment of interest charges on the quota of the Capital cost which the Government would have had to bear under the original condition,and that too at a rate of 5½ % as against 5%. This aspect of the case deserves special consideration in view of the fact that the development of the communication in the Malanad is an important

important item of work in which the Government are as much interested as the Board.

(4). As the Government undertake the liability to repay the loan raised by the Board and also meet the interest charges, the Committee agree to place at the disposal of the Government the annual collection of the Railway cess for the next 25 years.

RESOLUTION OF THE DISTRICT BOARD.

" Resolved that the reccommendation of the Standing Committee be approved and communicated to Government."

X X X X X X X X X

" E X T R A C T "

For President

District Board, Shimoga.

RB

L 2197/ Bs 45-27-4

To

The President, 29/30-10-27

District Board, Shimoga.

Sir,

I am directed to refer to your letter No. G. 380/L.B.26-27 dated, the 1st August 1927, in regard to the terms concerning the construction work of the Shimoga-Arasalu Railway Line and to state as follows:-

2. It appears from your letter that the District Board agree to two of the conditions proposed by Government viz., that the accumulated railway cess collections should be made over to Government unconditionally retaining no proprietory right in the line to the District Board and that railway cess should continue to be levied in the District for 25 years, the collections being placed at the disposal of Government for meeting interest charges during construction and the deficit in the revenue account. In respect of the other two conditions, namely, that the loan already raised will be considered as that of Government, the subscribers to the loan having no claim to a share of the profits and that in the revenue account interest at 5½% on capital contributed by Government will be included, the Board suggest a relaxation and request that the subscribers to the loan should be given a share of the profits as previously promised and that Government should not charge a higher rate of interest on their share of the capital than 5% as in the case of the loan reaised from the public.

3. In regard to the first of these requests I am directed to observe that according to the original terms of the loan offered to the public the holders of bonds should get a guaranteed interest of 4% p.a only plus a share of the profits after the line has begun to yield a return of more than 4%. As against this what is now being paid to them ~~is~~ represents a dividend of 5% p.a free of Income Tax.

4. The District Board have been unable to raise a loan themselves without Government help and contribute their portion of half the cost.

5. The cess levied at 3 pies in the rupee is not at all sufficient to meet the interest charges calculated even at 5% and the District Board declined to enhance the cess to 6 pies.

~~In view of the fact that the Board have~~ agreed to give up the proprietory right, it would be anomalous to concede this right to the subscribers to the loans in the form of a right to a share of the profits. Government consider it also not desirable to make any offer of a share of the profits when it is quite certain that there would be no profits of which any share can be given. If however in spite of this explanation the Board consider that subscribers to the loan may not be satisfied, they may propose that the amounts paid up by such subscribers as may desire it may be refunded to them. Government will be prepared to order ~~the return of the amounts in such cases~~.

6. The Board having agreed to give up proprietorship in the line and Government having resumed it as a Government concern even

though it is expected to work at a loss it would be anamolous to concede any share in the earnings of the line to the subscribers who have contributed a fraction of the loan offered for public subscription. Government consider that the ~~provision~~ mention held out to the debenture holders in the prospectus, of the grant of a share of profits in the net earnings is inoperative and cannot be complied with now.

6. If the debenture holders are not satisfied with this decision, and the District Board should recommend a refund of the subscribed amounts to the debenture holders, the question will be considered by Government.

7. As regards the calculation of interest at 5% on the capital contributed by Government, I am to observe that the proposal of Government will in no way affect the accepted liability of the Board which is limited to the payment of the 3 pies cess collections for 25 years. Interest chargeable on capital supplied by Government is based at certain standard rates which are adopted in the preparation of Capital and Revenue accounts of all productive works and Government do not consider it necessary to alter this arrangement in the present case.

8. In the circumstances, I am to request that the matter may be placed again before the District Board and their consent obtained

to all the conditions proposed by Government.

I have etc.,

General Secretary to Govt.